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Macroeconomic policy questions: external debt and development: towards a durable solution to the debt problems of developing countries

Draft resolution submitted by the Vice-Chairperson of the Committee, Mr. Carlos Enrique García González (El Salvador), on the basis of informal consultations held on draft resolution A/C.2/64/L.9

External debt sustainability and development

The General Assembly,

Recalling its resolutions 58/203 of 23 December 2003, 59/223 of 22 December 2004, 60/187 of 22 December 2005, 61/188 of 20 December 2006, 62/186 of 19 December 2007 and 63/206 of 19 December 2008,

Recalling also the 2009 Conference on the World Financial and Economic Crisis and Its Impact on Development and its outcome,[1]

Recalling further the International Conference on Financing for Development and its outcome,[2] and the 2008 Doha Declaration on Financing for Development,[3]

Recalling the United Nations Millennium Declaration adopted on 8 September 2000,[4]

Recalling also the 2005 World Summit Outcome,[5]

Recalling further its resolution 60/265 of 30 June 2006 on the follow-up to the development outcome of the 2005 World Summit, including the Millennium Development Goals and other internationally agreed development goals,

Recalling its resolution 57/270 B of 23 June 2003,

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[1] Resolution 63/303, annex.
[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.
[3] Resolution 63/239, annex.
[4] See resolution 55/2.
[5] See resolution 60/1.

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Recognizing the important role, on a case-by-case basis, of debt relief and debt restructuring as debt crisis prevention and management tools for mitigating the impact of the world financial and economic crisis in developing countries,

Expressing concern that some low-income countries may face increased challenges in servicing their debt,

Reaffirming that each country must take primary responsibility for its own development and that the role of national policies and development strategies, including in the area of debt management, cannot be overemphasized in the achievement of sustainable development, and recognizing that national efforts should be complemented by supportive global programmes, measures and policies aimed at expanding the development opportunities of developing countries, while taking into account national conditions and ensuring respect for national ownership, strategies and sovereignty,

Reaffirming also that the Bretton Woods institutions and other relevant organizations should continue to play an important role, given their respective mandates, in achieving and maintaining debt sustainability,

Noting in this regard the recent improvement of the lending framework of the International Monetary Fund, through, inter alia, streamlined conditions and the creation of more flexible instruments such as a flexible credit line, while noting also that new and ongoing programmes should not contain unwarranted pro-cyclical conditionalities,

Emphasizing that debt sustainability is essential for underpinning growth, and underlining the importance of debt sustainability and effective debt management to the efforts to achieve national development goals, including the Millennium Development Goals,

Noting with appreciation that the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative and bilateral donors have provided significant debt relief to twenty-six heavily indebted poor countries that have reached the completion point under the Heavily Indebted Poor Countries Initiative, and that an additional nine countries have reached the decision point under the Heavily Indebted Poor Countries Initiative, and expressing concern that five out of forty eligible heavily indebted poor countries have still not reached the decision point under the Heavily Indebted Poor Countries Initiative,

Noting that the world has been facing and confronting, in the world financial and economic crisis, the greatest economic challenge of recent times and recognizing the international response to this crisis which is helping to stabilize financial markets,

Recognizing that the negative impact of the world financial and economic crisis on development is still unfolding and entails the possibility of undoing the progress towards achieving the Millennium Development Goals, and that it may threaten debt sustainability in some developing countries, inter alia, through its impact on the real economy and the increase in borrowing undertaken, in order to mitigate the negative impacts of the crisis,

Welcoming the fact that the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative have enabled heavily indebted poor countries to increase their investments in health, education and other social services consistent

with national priorities, development plans and internationally agreed development goals, including the Millennium Development Goals,

Stressing the importance of addressing the challenges of the fourteen heavily indebted poor countries that are facing difficulties in reaching the decision or completion point under the Heavily Indebted Poor Countries Initiative, and expressing concern that some heavily indebted poor countries continue to face substantial debt burdens and need to avoid rebuilding unsustainable debt burdens after reaching the completion point under the Initiative,

Acknowledging that, although the debt relief provided under the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives has considerably reduced the debt vulnerabilities in post-completion point countries and that the vulnerabilities in those countries are on average much lower than in pre-completion point heavily indebted poor countries, some post-completion point countries remain classified as being at high risk of debt distress,

Convinced that enhanced market access for goods and services of export interest to developing countries contributes significantly to debt sustainability in those countries,

1. *Takes note* of the report of the Secretary-General entitled "Towards a durable solution to the debt problems of developing countries";[6]

2. *Emphasizes* the special importance of a timely, effective, comprehensive and durable solution to the debt problems of developing countries, since debt financing and relief can contribute to economic growth and development;

3. *Stresses* the importance of responsible lending and borrowing, and emphasizes that creditors and debtors must share responsibility for preventing unsustainable debt situations;

4. *Reiterates* that debt sustainability depends on a confluence of many factors at the international and national levels, emphasizes that country-specific circumstances and the impact of external shocks should continue to be taken into account in debt sustainability analyses and underscores the fact that no single indicator should be used to make definitive judgements about debt sustainability, and, in this regard, while acknowledging the need to use transparent and comparable indicators, invites the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to take into account fundamental changes caused by, inter alia, natural disasters, conflicts and changes in global growth prospects or in the terms of trade, especially for commodity-dependent developing countries, as well as by the impact of developments in financial markets, and to continue to provide information on this issue using existing cooperation forums, including those involving Member States;

5. *Underlines* the fact that the long-term sustainability of debt depends, inter alia, on the economic growth, mobilization of domestic resources and export prospects of debtor countries and hence on the creation of an enabling international environment conducive to development, progress in following sound macroeconomic policies, transparent and effective regulatory frameworks and success in overcoming structural development problems;

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[6] A/64/167.

6. *Recognizes* the enormity and the multidimensional nature of the world financial and economic crisis and the significant risks it may pose to the debt sustainability of some developing countries and countries with economies in transition, and emphasizes the need for coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate;

7. *Stresses* the need to assist developing countries in responding to the crisis without incurring the risk of relapsing into another debt crisis, takes note with appreciation in this regard of the additional resources that have been made available through the International Monetary Fund and the multilateral development banks, and calls for the continued provision of concessional and grant-based financing to low-income countries to enable them to respond to the crisis;

8. *Notes* the provision by the International Monetary Fund of interest relief to low-income countries in the form of zero-interest payments on financing from concessional lending facilities until the end of 2011;

9. *Also notes* that developing countries can seek to negotiate, as a last resort, on a case-by-case basis and through existing frameworks, agreements on temporary debt standstills between debtors and creditors in order to help mitigate the adverse impacts of the crisis and stabilize macroeconomic developments;

10. *Stresses* the importance of assisting developing countries, upon request, in managing their borrowing and in avoiding a build-up of unsustainable debt, including through capacity-building in the area of debt management and the use of grants and concessional loans, and underlines the important role of the joint Debt Sustainability Framework of the International Monetary Fund and the World Bank for low-income countries in helping to guide borrowing and lending decisions;

11. *Takes note* of the recent review of the flexibility of the Debt Sustainability Framework and urges all lenders and borrowers to make full use of debt sustainability analyses in their debt decisions in order to help maintain debt sustainability through a coordinated and cooperative approach, and encourages continued review of the Framework, with the full engagement of borrower Governments, in an open and transparent manner;

12. *Recognizes and encourages* the continued provision of assistance, including technical assistance, to enhance debt management, negotiation and renegotiation capacities, including supporting legal advice in relation to tackling external debt litigation and debt data reconciliation between creditors and debtors, in order that debt sustainability may be achieved and maintained;

13. *Takes note* of the progress made under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, while expressing concern that some countries have yet to reach decision or completion points, and calls for their full and timely implementation and for continued support to the remaining eligible countries in completing the Heavily Indebted Poor Countries Initiative process, and encourages all parties, both creditors and debtors, to fulfil their commitments as rapidly as possible in order to complete the debt relief process;

14. *Notes* that some low- and middle-income developing countries that are not included in existing debt relief initiatives also experience constraints on mobilizing the resources needed to achieve the internationally agreed development goals;

15. *Underlines* that heavily indebted poor countries eligible for debt relief will not be able to enjoy its full benefits unless all creditors, including public and private, contribute their fair share and become involved in the international debt resolution mechanisms to ensure the debt sustainability of low-income countries;

16. *Encourages* donor countries to take steps to ensure that resources provided for debt relief under the Heavily Indebted Poor Countries and the Multilateral Debt Relief Initiatives do not detract from official development assistance resources intended to be available for developing countries;

17. *Encourages* further improving of the mutual exchange of information, on a voluntary basis, on borrowing and lending among all creditors and borrowers;

18. *Takes note* of the creation of the new International Monetary Fund lending facilities in response to the crisis and the continued review of the new lending facilities, and urges the multilateral development banks to move forward on flexible, concessional, fast-disbursing and front-loaded assistance that will substantially and quickly assist developing countries facing financing gaps in their efforts to achieve the Millennium Development Goals, bearing in mind that new lending facilities will have to consider those countries' individual absorptive capacities and debt sustainability;

19. *Welcomes and encourages* the efforts of the heavily indebted poor countries, calls upon them to continue to strengthen their domestic policies and economic management, inter alia, through poverty reduction strategies, and to create a domestic environment conducive to private-sector development, economic growth and poverty reduction, including a stable macroeconomic framework, transparent and accountable systems of public finance, a sound business climate and a predictable investment climate, and in this regard invites creditors, both private and public, that are not yet fully participating in debt relief initiatives to substantially increase their participation, including by providing comparable treatment to the extent possible to debtor countries that have concluded sustainable debt relief agreements with creditors, and invites the international financing institutions and the donor community to continue to provide adequate and sufficiently concessional financing;

20. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication, sustained internationally agreed development goals including the Millennium Development Goals, and in this regard, urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards those objectives;

21. *Calls for* the consideration of additional measures and initiatives aimed at ensuring long-term debt sustainability through increased grant-based and other forms of concessionary financing, cancellation of 100 per cent of the eligible official multilateral and bilateral debt of heavily indebted poor countries and, where appropriate, and on a case-by-case basis, significant debt relief or restructuring for developing countries with an unsustainable debt burden that are not part of the Heavily Indebted Poor Countries Initiative;

22. *Encourages* the Paris Club, in dealing with the debt of low- and middle-income debtor countries that are not part of the Heavily Indebted Poor Countries Initiative, to take into account their medium-term debt sustainability in addition to

their financing gaps, and takes note with appreciation of the Evian approach of the Paris Club in providing terms of debt relief tailored to the specific needs of debtor countries while preserving debt cancellation for heavily indebted poor countries;

23. *Stresses* the need to significantly address the debt problems of middle-income developing countries, and in this regard stresses the importance of the Evian approach of the Paris Club as a practical means of addressing this issue, and notes that the current debt sustainability framework used to analyse the debt situation of middle-income countries focuses mostly on medium-term debt dynamics;

24. *Notes* the changing composition of some countries' sovereign debt which has shifted increasingly from external public debt to domestic debt, notes that the levels of domestic debt could create other challenges for macroeconomic management and public debt sustainability, and calls for reinforcing the capacity to manage the new levels of domestic debt in order to maintain the overall public debt sustainability;

25. *Recognizes* that a shift has occurred from official to commercial borrowing and from external to domestic public debt, although for most low-income countries external finance is still largely official, notes that the number of creditors, both official and private, has increased significantly, and stresses the need to address the implications of these changes, including through improved data collection and analysis;

26. *Calls for* the intensification of efforts to prevent debt crises by enhancing international financial mechanisms for crisis prevention and resolution, in cooperation with the private sector, and by finding solutions that are transparent and agreeable to all;

27. *Recognizes* the roles of the United Nations and the international financial institutions in accordance with their respective mandates, and encourages them to continue to support global efforts towards sustainable development and a durable solution to the debt problem of developing countries;

28. *Invites* creditors and debtors to further explore, where appropriate, and on a mutually agreed and case-by-case basis, the use of innovative mechanisms such as debt swaps, including debt for equity in Millennium Development Goals projects;

29. *Stresses* the need to continue to take effective measures, preferably within the existing frameworks, to address the debt problems of the least developed countries, including through cancellation of the multilateral and bilateral debt owed by least developed countries to creditors, both public and private;

30. *Invites* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium to long term, and recognizes the need for countries to be able to invest, inter alia, in health and education while maintaining debt sustainability;

31. *Stresses* the need to increase information-sharing, transparency and the use of objective criteria in the construction and evaluation of debt scenarios, including an assessment of domestic public and private debt, in order to ensure the achievement of development goals, recognizes that credit-rating agencies also play a significant role in the provision of information, including assessment of corporate

and sovereign risks, and in this regard calls for strong oversight over credit-rating agencies consistent with the agreed and strengthened international code of conduct;

32. *Calls for* the consideration of enhanced approaches to sovereign debt restructuring mechanisms based on existing frameworks and principles, with the broad participation of creditors and debtors, the comparable treatment of all creditors and an important role for the Bretton Woods institutions, and in this regard, welcomes and calls upon all countries to contribute to the ongoing discussions in the International Monetary Fund and the World Bank and other forums on the need for and feasibility of a more structured framework for international cooperation in this area;

33. *Welcomes* the efforts of and calls upon the international community to provide flexibility, and stresses the need to continue those efforts in helping post-conflict developing countries, especially those that are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

34. *Also welcomes* the efforts of and invites creditors to provide flexibility to developing countries affected by natural disasters so as to allow them to address their debt concerns, while taking into account their specific situation and needs;

35. *Further welcomes* the efforts of and calls upon the international community to support institutional capacity-building in developing countries for the management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies;

36. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and other relevant multilateral financial institutions and stakeholders, to continue and intensify cooperation in respect of capacity-building activities in developing countries in the area of debt management and debt sustainability;

37. *Invites* the international community, including the United Nations system, to continue efforts to increase financial support in respect of capacity-building activities for developing countries in the area of debt management and debt sustainability, and encourages countries that have not done so to create transparent and accountable debt management systems;

38. *Calls upon* all Member States and the United Nations system, and invites the Bretton Woods institutions and the private sector, to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those related to the question of the external debt problems of developing countries;

39. *Requests* the Secretary-General to submit to the General Assembly at its sixty-fifth session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt situation of developing countries;

40. *Decides* to include in the provisional agenda of its sixty-fifth session, under the item entitled "Macroeconomic policy questions", a sub-item entitled "External debt sustainability and development".